

# Study on Role of Panchayati Raj and Financial Management in Strengthening Rural Development : A Study of Madhya Pradesh

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**Introduction** - Given that a sizable section of the population lives in villages, rural development has long been a top priority for India's national development strategy. By establishing the Panchayati Raj System as a three-tiered framework of self-government at the village, intermediate, and district levels, the 73rd Constitutional Amendment Act of 1992 signaled a sea change in rural governance. This clause in the constitution sought to give local organizations the financial and administrative capacity to create and carry out development initiatives that are suited to the unique requirements of rural communities.

One of the biggest and most rural states in India, Madhya Pradesh, has led the way in putting the Panchayati Raj system into practice. The state has put a lot of effort into giving local governments more authority and financial responsibility. Nonetheless, a key element affecting the success of rural development projects continues to be the efficiency of finance administration at the Panchayat level. Rural communities in M.P. nevertheless suffer enduring issues like poor infrastructure, insufficient healthcare, low literacy, and unemployment despite a number of reforms and government initiatives. The effectiveness and accountability of local governing institutions are seriously called into doubt by these problems. It becomes crucial to assess how Panchayati Raj Institutions (PRIs) contribute to successful financial planning, resource use, participatory governance, and service delivery.

**Table 1: Geographical Features**

Total Population in crore as per Census 2011	7.27
Rural Population (cr.)	5.25
% of rural population to total population	72.21%
Urban Population (cr.)	2.02
% of urban population to total population	27.79
Male (cr.)	3.76
Female (cr.)	3.51
Scheduled Castes (cr.)	1.13
% of SC population to total population	15.54%

(Source: <https://www.slbcmadhyapradesh.in/geographical-map.aspx>)

**Evolution of Panchayati Raj Institutions in India** : India's Panchayati system predates independence by a significant margin. Gram panchayats have been the main political organization in rural India for decades. Panchayats were typically elected bodies with both executive and judicial authority in ancient India. The significance of the village panchayats was weakened by natural and imposed socioeconomic changes, as well as foreign rule, particularly Mughal and British. The panchayats, however, served as tools of upper caste domination over the rest of the village before to independence, which exacerbated socioeconomic or caste-based divisions. However, the creation of the Constitution following independence marked the pinnacle of the Panchayati Raj System's development. "The state shall take steps to organize village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government," according to Article 40 of the Indian Constitution. The Indian government established a number of committees to research rural self-governance implementation and suggest ways to accomplish this objective. The following committees have been appointed: the Ashok Mehta Committee, the Balwant Rai Mehta Committee, the G. V. K. Rao Committee, and the L. M. Singhvi Committee.

**Table 2: Administrative Features**

No. of Districts	55
No. of Division	10
No. of Villages	54903
No. of Gram Panchayats	23043
No. of Block/Janpad Panchayats	313
No. of Tehsils	369

(Source: <https://www.slbcmadhyapradesh.in/geographical-map.aspx>)

## Review of Literature

It had a lengthy history before becoming the 73rd

Amendment to the Indian Constitution in 1992. The world's largest democratic process is found in India. One of the strategies and effective instruments of Indian democracy is the Panchayati Raj system. There are 664,369 villages in India as of 2019. Thus, the primary goal of the Indian government is to provide efficient services for village-level infrastructure development. Competition between nations has been growing in the age of globalization in a variety of domains, including economic, social, political, and technological. The development paradigm is now posing a threat to the democratic system in India(**Roy, Moumita Saha, 2024**).

With an emphasis on its administrative duties and development scheme execution, the paper examines the development and effects of the three-tier system since the 73rd Constitutional Amendment Act. The study looks at how local self-governance and rural development work by analyzing financial structures and operational procedures. The study identifies the major issues that impede PRIs' efficacy: monetary limitations, ineffective administrative practices, and social impediments. The results indicate that, in spite of their drawbacks, PRIs have made a substantial contribution to grassroots development by means of decentralized planning and the execution of numerous rural development initiatives. The study ends with suggestions for bolstering these organizations to improve their contribution to rural development, highlighting the necessity of increased financial independence, capacity building, and technology integration for better governance(**kumar, A.S. Naveen and Dar, Showkat Ahmad (2020)**).

This journal focuses on the effective operation of good governance and the development of all components of panchayati raj institutions(**Sinha, 2017**). In conclusion Local governments' self-interest in protecting the environment, democratic local self-government is a state-of-the-art mode of governance. Under the Panchayati Raj system, information about public welfare and well-being can be disseminated to the villagers through a variety of channels and entities, including state governments, local bodies managed by non-officials, villager-led organizations, and governing bodies free from corruption(**Vaishnav and Dhiva, 2018**).

**A Study on Panchayati Raj Establishments** This study concludes and highlights the importance of women's involvement as a result of the MNREGA, which has improved tribal villages and led to new programs that have eradicated poverty through Self-Help Groups(**Benni, 2017**).

**The Structure and Function of Indian Panchayat Raj Institutions and Rural Development**, Reverend the ancient Indian text known as the Rigveda talks about panchayats as "Sabhas" and "Samities." An assembly of five elders chosen and approved by their rural community. However, the active involvement would be necessary for the PRI to operate these organizations effectively and meaningfully. It is impossible to exaggerate the significance of these

institutions for rural development(**Kadam, 2017**).

The involvement of the regionally based private construction industry significantly enhanced this capacity, according to the 2016. It has been demonstrated that local administrators and engineers are able to offer some training. Everything that needed to be physically created was and still is completed in advance. After work started in 1998, 600 kilometers of rural roads, markets, and other infrastructure were constructed and renovated, all of which were completed well within the original budget estimates. As part of the road construction, 98 small bridges and 988 culverts were also constructed.

Decentralization has been widely recognized in India as a factor in the country's GDP growth. To draft and audit Panchayats' annual plans, State Account Service officials may be hired at the District and Mandal levels. The Gram Sabha's Social Audit should be staffed by qualified personnel(**Soans and Kaluraya, 2015**). Indian government must aid states and provide accounting software, technical support, and supervision as part of the fiscal responsibility regime(**Kalyan, 2014**).

**Research Methodology Overview:** The study used a descriptive methodology and a qualitative lens to investigate how financial management and Panchayati Raj Institutions (PRIs) support rural development in Madhya Pradesh. To give a thorough grasp of the development, administrative roles, and effects of PRIs, secondary data was gathered from government papers, policy documents, government reports, Panchayat budgets, records from the Rural Development Ministry, audit reports, and existing literature. In order to investigate institutional practices and development outcomes and to pinpoint important issues that impact PRI efficacy, including budgetary limitations, administrative inefficiencies, and social impediments, the study used descriptive analysis. Methods made it possible to conduct a thorough analysis of how PRIs operate, the challenges they encounter, and possible ways to strengthen their contribution to rural development.

Under the ethical considerations, data used only for academic purposes

(**kumar, A.S. Naveen and Dar, Showkat Ahmad, 2020**).

**Significance of the topic:** This study seeks to explore the role of Panchayati Raj system, combined with sound financial management practices, can contribute to sustainable and inclusive rural development in Madhya Pradesh. The findings will provide insights into existing gaps, best practices, and potential policy interventions needed to strengthen the rural development framework.

**Objectives :** It becomes essential to evaluate the role of Panchayati Raj Institutions (PRIs) not only in participatory governance but also in effective financial planning, resource utilization, and service delivery.

**Scope:** This study focuses on examining the role of Panchayati Raj Institutions (PRIs) and financial management practices in promoting rural development in

Madhya Pradesh. It covers the functioning of the three-tier Panchayati Raj system. The impact of financial management on key rural development indicators such as infrastructure, education, health, and livelihoods.

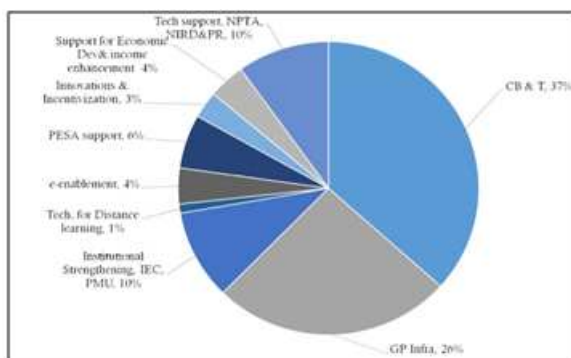
**Limitations:** The study is geographically limited to selected areas/districts of Madhya Pradesh and may not reflect the condition of PRIs in other states. The availability of accurate and updated financial data at the Panchayat level may be limited. Time and resource constraints may restrict the number of field visits or interviews. The study relies on government records, secondary data, and/or self-reported responses, which may include biases or inconsistencies.

**Structure and Role of Panchayati Raj in Rural Development:** Three-tiered Panchayati Raj system includes Gram Panchayat (village level), Janpad Panchayat (block level), and Zila Panchayat (district level). The Madhya Pradesh Panchayati Raj Act, 1993, which was passed after the 73rd Amendment to the Constitution, gives these entities authority. Three-level structure: The three-tiered Panchayati Raj system (Village, Intermediate, and District level) would be established in the states as a result of this Act. States that have fewer than 20 lakh people cannot be considered intermediate (Roy, Moumita Saha, 2024).

PRIs are democratic local government organizations that promote economic growth, social inclusion, gender equality, and good governance. The 73rd Amendment to the Indian Constitution has delegated local planning and development responsibilities to the Panchayats and envisioned grassroots, people-led development. The Panchayati Raj System was established with the dual goals of guaranteeing social justice and economic growth for rural residents. State governments determine the degree of devolution of power, funds, functions, and functionaries (3Fs), and it varies from one state to another.

(<https://rgsa.gov.in/resources/files/FrameworkRGSA.pdf>).

**Figure 01 :Budget for State Component (in Crores)**



(Source:<https://rgsa.gov.in/resources/files/FrameworkRGSA.pdf>)

#### Contributions observed

**Decentralized Governance:** Empowers local communities to make decisions tailored to their needs. **Inclusive Participation:** Gram Sabhas ensure that marginalized groups like women, SC/STs, and economically weaker

sections have a voice. **Local Planning:** Panchayats prepare micro-level development plans, integrating them into district-level strategies. **Service Delivery:** They manage basic services like water supply, sanitation, education, and health at the grassroots level. **Empowerment Initiatives:** Madhya Pradesh pioneered the concept of *Gram Swaraj*, encouraging self-governance and transparency.

**Financial Management and Inclusion:** Effective financial management is crucial for implementing rural development schemes and ensuring accountability.

#### Accountability Mechanisms

**State Finance Commission Recommendations:** Allocate a share of state revenue to Panchayats for local development.

**Madhya Pradesh Gramin Bank (MPGB):** Operates in 39 districts, providing banking services to rural populations and supporting financial inclusion.

**Microfinance & SHGs:** Self-Help Groups linked to banks enable access to credit, savings, and insurance for rural households.

**Samruddhi Scheme:** A financial inclusion model praised by UNDP for improving access to finance among the poor in MP.

**MGNREGA & Livelihood Programs:** Financially managed by Panchayats to ensure employment and asset creation.

**Incentivization of Panchayats:** In order to foster a spirit of competition amongst PRIs and States, the top-performing Panchayats (District, Intermediate, and Gram Panchayats) and States/UTs will receive awards and financial incentives in appreciation of their efforts to improve the delivery of public goods and services. The best panchayats will be chosen using a number of factors, such as Mission Antyodaya's criteria and indicators for reporting on trainings, creating GPDPs, and using FFC money. PRIs and States/UTs currently receive honors in the following categories: -

Gaurav, Nanaji Deshmukh Rashtriya Gram Sabha Puraskar (NDRGGSP): To Gram Panchayats for their exceptional involvement of Gram Sabhas in socio-economic development. States get the e-Panchayat Puraskar in appreciation of notable advancements made in the rollout and implementation of the e-Panchayat Mission mode initiative. (There isn't any money involved.) GPDP awards: Three of the nation's top-performing Gram Panchayats will get this brand-new honor, which was launched in 2017-18. This has been done in an effort to support general practitioners who have created their GPDPs in accordance with State/UT-specific guidelines that were created in accordance with the model guidelines published by MoPR (<https://rgsa.gov.in/resources/files/FrameworkRGSA.pdf>).

#### Figure 02 (see in last page)

**Role of State Component :** The main State component of the plan will be the capacity building of PRIs, which will comprise GP buildings, administrative and technological assistance, including e-enablement of GPs, trainings, and



workshops. Allowed activities list states are supposed to create plans for central financing to undertake activities according to their needs and priorities.

**Figure 03: Structure Layout of Responsibilities**



(Source: kumar, A.S. Naveen and Dar, Showkat Ahmad, 2020).

### Obstacles and Suggestions

#### Difficulties:

- **Low Awareness:** A large number of Panchayat members are not properly trained in financial procedures.
- **Elite Capture:** When local elites control decision-making, transparency is diminished.
- **Infrastructure Gaps:** In rural locations, financial services are hampered by inadequate connectivity and digital access.

#### Recommendations:

- **Capacity Building:** Regular training for Panchayat representatives on budgeting and governance.
- **Technology Integration:** Use digital platforms for fund tracking and service delivery.
- **Community Monitoring:** Strengthen Gram Sabhas to oversee financial decisions and ensure accountability.

### Conclusion on Impact Assessment

**Evaluation of PRI-led initiatives are:** MGNREGA, the Central Ministry of Rural Development Land development, flood control, rural connection, irrigation, drought proofing (including afforestation), water collection and conservation, restoration of traditional water bodies, and government-notified operations are all deemed acceptable. Both public and private property can be used for horticultural cultivation. Inland fishing, pond construction, and other activities are also possible.

**The National Livelihood Mission, or Aajeevika:** Women are encouraged by Central to launch producer businesses, participate in kitchen gardening or communal farming, try out new, efficient methods, and get training.

**Interest Subvention to Farmers :** plan for interest subsidies to give farmers short-term credit.

**Rural industrialization:** Support is available for the construction and upkeep of goat sheds, cattle sheds, poultry bird night shelters, and other structures under the scheme's terms.

**Rural industrialization Aajeevika:** funding for organizations that establish remote industrial units, provide training and other managerial assistance, and establish connections.

**Rural industrialisation Village Entrepreneurship Start-up Programme Central Ministry of Rural Development** To offer village business owners incubator services.

**Deen Dayal Upadhyaya Gram Kaushalya Yojana :** All qualified young people's skills are developed for self-employment and placement, and assistance is given to rural workers in big cities. Give the impoverished and marginalized access to demand-driven skill training at no cost to them in rural areasocially disadvantaged groups (women 33%, minorities 15%, and SC/ST 50%) be covered.

**Mukhya Mantri Yuva Swarozgar Yojana :** Young entrepreneurs are given financial support under the program. For projects up to Rs. 50,000, the State Government contributes 20% of the total cost as Margin Money, or a maximum of Rs. 10,000 all at once. These business owners have access to loan facilities. As long as the account is covered by CGTMSE, no collateral security is required. Otherwise, 100% of the approved loan amount is pledged as collateral.

**Suggestions:** The following are suggestions for tactical methods to enable these institutions to optimize their influence on rural development.

1. **Greater Financial Autonomy:** Give organizations more fiscal decentralization and the ability to create and oversee their own income in order to guarantee prompt and sufficient financing for initiatives aimed at rural development.
2. **Capacity Building Programs:** To enhance governance, project management, and service delivery, regularly arrange training sessions and seminars for institutional staff and local representatives.
3. **Technology Integration:** Encourage the effective planning, monitoring, and provision of rural services by utilizing Information and Communication Technology (ICT) tools such mobile applications, e-governance portals, and GIS mapping.
4. **Transparent Fund Allocation:** Put in place strong procedures to guarantee accountability and transparency in the distribution and use of funds, reducing leaks and abuse.
5. **Strengthen Panchayati Raj Institutions (PRIs):** Give local self-governments the autonomy to make decisions and the ability to carry out development initiatives that are suited to the needs of rural areas.
6. **Public-Private Partnerships (PPP):** Encourage cooperation with private sector organizations to gather more funds, knowledge, and creative ideas for rural services and infrastructure.
7. **Monitoring and Evaluation Mechanisms:** To ensure ongoing improvements, put in place regular monitoring and impact assessment frameworks to review program results and institutional performance.

8. Resource Allocation Policy Reforms: Revise and simplify regulations to distribute funds according to rural priorities unique to a region, hence lowering disparities in development projects.

9. Community Awareness and Participation: Promote rural communities' active involvement in decision-making procedures so they can hold institutions responsible and make sure initiatives meet their requirements.

10. Digital Literacy and Accessibility: Encourage digital literacy among institutional employees and rural residents to guarantee broad access to e-governance platforms and the instantaneous distribution of information (kumardar, 2020).

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Figure 02: Financial Facilities Available for M.P.

KEY BANKING PARAMETER of the State											
Amount in crore											
Sr.	Parameters	Outstanding				Y-o-Y Variation			Y-o-Y Variation %		
		Mar'22	Mar'23	Mar'24	Mar'25	Mar'23	Mar'24	Mar'25	Mar'23	Mar'24	Mar'25
1	Total number of Branches	8,120	8,319	8,464	8779	199	145	315	2.45	1.74	3.72
2	Total number of ATMs	9,200	9,294	9,156	8,882	94	-138	-274	1.02	-1.48	-2.99
3	Total Deposits	545,918	584,111	656,101	714,336	38,193	71,990	58,235	7.00	12.32	8.88
4	Total Advances	396,652	455,195	529,951	596,554	58,543	74,756	66,603	14.76	16.42	12.57
5	Credit Deposit Ratio	72.66	77.93	80.77	83.51	5	3	3			
6	Total Business	942,570	1,039,306	1,186,052	1,310,890	96,736	146,746	124,838	10.26	14.12	10.53
7	Agriculture	128,430	143,712	163,077	178,745	15,282	19,365	15,668	11.90	13.47	9.61
8	crop Loans out of total agriculture	92,767	104,359	108,493	113,779	11,592	4,134	5,286	12.50	3.96	4.87
9	MSME	75,769	88,467	106,612	120,082	12,698	18,145	13,470	16.76	20.51	12.63
10	Education	2,697	2,881	3,629	4,180	184	748	551	6.82	25.96	15.18
11	Housing	45,882	56,703	72,255	81,709	10,821	15,552	9,454	23.58	27.43	13.08
12	Priority Sector Advances	239,887	269,665	312,671	343,705	29,778	43,006	31,034	12.41	15.95	9.93
13	Non-Priority Sector Advances	156,765	185,530	217,280	252,680	28,765	31,750	35,400	18.35	17.11	16.29
14	Total NPA	36,372	32,604	35,639	37,130	-3,768	3,035	1,491	-10.36	9.31	4.18

([https://www.slbcmadhyapradesh.in/docs/key\\_banking\\_parameter\\_05-05-2025.pdf](https://www.slbcmadhyapradesh.in/docs/key_banking_parameter_05-05-2025.pdf))

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